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December 14, 2007

AGIA License Office
State of Alaska, Dept of Revenue
550 West 7th Ave. Suite 1820
Anchorage, AK 99501

Attention: Marty Rutherford, Deputy Commissioner
Alaska Department of Natural Resources

Mr. Christopher Rutz
AGIA License Office

Subject: Alaska Gasline Inducement Act
TransCanada Application for License
Additional Clarifying Information

Dear Ms. Rutherford and Mr. Rutz:

TransCanada acknowledges receipt of your correspondence dated December 11, 2007 in which TransCanada is asked to provide additional clarifying information to its November 30, 2007 Application for License. In that regard, please find attached our responses to the seven requests you forwarded.

As referenced in your correspondence and as set out in RFA Section 1.13.6, TransCanada requests that a portion of the attached responses be kept confidential. More specifically, our response to your Request #7 is submitted with the understanding that it be kept confidential and not be disclosed publicly. We have marked our response to the State's Request #7 accordingly and as per the process stated in RFA Section 1.13.6.

We are submitting this reply document to the State by two means:

- we are today e-mailing an electronic copy to the attention of Mr. Chris Rutz at crutz@aidea.org; and
- we are today forwarding the originally signed document by courier to the AGIA License Office, attention Marty Rutherford.

Thank you for your ongoing consideration of our Application and I remain available to provide further information or participate in discussions that the State may wish to initiate.

Sincerely,

A. M. (Tony) Palmer
Vice President Alaska Development

State of Alaska Request #1

In accordance with RFA Sections 2.8.1 and 2.8.2, please clarify what TransCanada Corporation ("TransCanada") is committing to provide to the Co-Applicants with regard to the financial, technical and other resources necessary to fulfill the commitments made by the Co-Applicants in the Application.

TransCanada Response

As discussed in Section 2.8.1 "Description of Applicant and Participating entities" on page 2.8-1 of TransCanada's AGIA Application, the Co-Applicants (TC Alaska LLC and Foothills) would call upon TransCanada Corporation for support to fulfill their commitments under the AGIA License. TransCanada Corporation commits to make available the necessary human resources, technical know-how and expertise, management information systems, and procedures and policies to ensure the Co-Applicants can meet their AGIA undertakings. TransCanada will ensure that the Co-Applicants have the financial resources to meet their Development Phase undertakings.

Also as discussed in Section 2.8.2(3) "Sources of Debt and Equity Funds" on page 2.8-3 of TransCanada's AGIA Application, TransCanada Corporation will provide irrevocable commitments to the Co-Applicants and Project lenders with respect to the total equity commitment, consistent with the Negotiated Rate capitalization structure, for the Project to secure financing once the Decision to Proceed conditions are met.

State of Alaska Request #2

With regard to available downstream capacity, does your reference to "existing gas infrastructure" in Alberta (p. 2.2-56) include direct deliveries from the project into pipelines that are not affiliated with TransCanada?

TransCanada Response

TransCanada's proposal is inclusive of the Alberta Section as described in Section 2.1(1) "Project Components" on page 2.1-1 of TransCanada's AGIA Application. It is TransCanada's opinion that connecting the Alaska gas to the Alberta Hub will result in the highest netback and access to multiple market options and spare capacity on downstream infrastructure. The Alberta Hub provides Alaska Shippers the first opportunity to monetize their gas, and NGLs, at the most liquid gas market in North America. In order to access the Alberta Hub, Shippers will pay a toll on the Alberta System downstream of Boundary Lake, or downstream of Fort Nelson if the Fort Nelson Option is secured.

Downstream of the Alberta Hub the Project will allow Alaska gas to access multiple existing pipelines, including TransCanada's Mainline, Foothills - Northern Border, TransCanada Gas Transmission Northwest, and either directly or indirectly, other non-affiliated pipelines such as Alliance, Spectra, ATCO or other North American pipeline systems.

State of Alaska Request #3

On pages 2.2-66 and 2.2-71 of the Application, with regard to the referenced 2 percent downward adjustment to return on equity ("ROE") if costs exceed a particular level:

a. To what estimated cost level is the 2 percent adjustment tied?
b. When will that cost level be finally determined?

TransCanada Response

a) As described in Section 2.2.3.6(1) "Incentive Adjustments to Return on Equity for Recourse and Negotiated Rates" on page 2.2-66 of TransCanada's AGIA Application, the rate of return on equity for Negotiated Rate Shippers and Recourse Rate Shippers established by FERC for the Alaska Section and by the NEB for the Yukon-BC Section would be adjusted downward for the first five years following the In-Service Date by 5 basis points for each 1% that the Actual Capital Cost of the Pipeline System exceeds the Base Capital Cost up to a limit of 200 basis points (i.e. 2%).

   The level of estimated Base Capital Cost that the ROE adjustment is tied to will be a Class 3 estimate (as defined in Section 2.2.1(8)(d)(ii) "Cost Estimating").

b) The Class 3 estimated Base Capital Cost will be finally determined at Decision to Proceed.

State of Alaska Request #4

With regard to interruptible transportation ("IT") and authorized overrun service ("AOS"), please clarify:

a. Whether the Co-Applicants intend to offer IT and AOS to delivery points in Alaska, and to delivery points outside of Alaska,
b. Whether the Co-Applicants will credit revenue from those services to firm transportation shippers, and
c. What the rate design will be for those services.

TransCanada Response

In developing its proposal and determining the types of service proposed to be offered, TransCanada carefully considered the various relevant factors bearing on the likelihood of successfully developing a Project that best serves the national interest and meets the State's goals as expressed in AGIA. In this regard, TransCanada thoroughly considered what types of service could be offered consistent with the need to comply with the AGIA requirements, the necessity of obtaining financing to enable the initial Project to proceed, encouraging all available gas to commit to the initial Project, and the goal of facilitating expansions and the interests of initial and future Shippers. After carefully considering all of these interests, TransCanada determined that an equitable and balanced proposal would include firm service for 25 or more years, authorized overrun service ("AOS"), but no other interruptible service for the initial years. Although TransCanada recognizes the State's interest in offering interruptible service to delivery points in Alaska, TransCanada determined that offering interruptible service other than AOS in the initial years could make it more difficult to obtain financing for the initial Project.

a) TransCanada will offer AOS to firm Shippers, for deliveries on the Alaska and Yukon-BC Sections, that have committed to firm service under the terms of TransCanada's AGIA Application. One of TransCanada's key objectives, consistent with the State's interest in maximizing the likelihood of Project success, as reflected in AGIA, is to ensure that the Project can be successfully financed to allow the construction to commence. In order to achieve this objective, it is important all available gas is committed to the initial Project on a firm basis. Therefore, TransCanada does not intend to offer interruptible transportation service other than AOS to delivery points on the Alaska or Yukon-BC Sections during the initial years of the Project.

b) As described in Section 2.2.3.11(2) "U.S. Loan Guarantee for Capital Cost Overrun" on pages 2.2-71 and 2.2-72 of TransCanada's AGIA Application, TransCanada will utilize all revenues collected from AOS to first service the Capital Cost Overrun Loan. Once the Capital Cost Overrun Loan is repaid in full, TransCanada will credit all AOS revenues to the account of the firm transportation shippers.

c) Recourse Rate Shippers that request AOS would be charged the 100% load factor Recourse Rate for 25-year firm transportation services for the Alaska Section. Negotiated Rate Shippers would be charged the 100% load factor Negotiated Rate for 25-

year firm transportation services for the applicable Alaska and Yukon-BC Sections that they utilize. AOS shippers would also be required to pay the commodity charge and their share of the fuel gas, lost and unaccounted-for gas. For billing determinant purposes, no fixed costs, such as capital recovery, return on equity and debt, operating and maintenance costs, taxes, etc, would be allocated to the AOS. Each firm transportation shipper would be entitled to its proportional share of the AOS capacity.

State of Alaska Request #5

With regard to other Alaska transportation services, and the commitment to in-state services as discussed in Section 2.2.3.9 of the RFA:

a. Will TC Alaska offer small customer rates, such as one-part volumetric "demand" rates, for deliveries to customers in Alaska?
b. Will TC Alaska offer requirements contracts for customers in Alaska, including the ability to vary takes on an uneven hourly basis?
c. If the answer to the question in subpart (b) is yes, how will TC Alaska structure the rates for such service?
d. What will be the daily volumetric limit, if any, for small customer services, including volumetric rates and requirements contracts, for deliveries to customers in Alaska?
e. Will the Co-Applicants offer backhaul services from Canadian points to Alaska?
f. If so, how will Co-Applicants structure rates for backhaul services?
g. Please clarify the terms and cost treatment for the initial five interconnections in Alaska.

TransCanada Response

As noted in response to Request #4, in developing its proposal and determining the types of service proposed to be offered, TransCanada carefully considered the various relevant factors bearing on the likelihood of successfully developing a Project that best serves the national interest and meets the State's goals as expressed in AGIA. In this regard, TransCanada thoroughly considered the nature of transportation services that could be offered consistent with the AGIA requirements for in-State services, the necessity of obtaining financing to enable the initial Project to proceed, encouraging all available gas to commit to the initial Project, the goal of facilitating expansions, and the interests of initial and future in-State and out-of-State Shippers. After carefully considering all these interests, TransCanada determined that an equitable and balanced proposal would include firm service for 25 or more years and authorized overrun service ("AOS") within and downstream of Alaska for the initial years of the Project, but not small customer rates or backhaul services from Canadian points to Alaska.

TransCanada has assessed the potential impact of various in-State services on firm transportation Shippers, both in-State and downstream of Alaska, in its Application. Firm Shippers provide the financial underpinning to any large-scale greenfield project and are required to maximize the probability of success of the initial Project. Although TransCanada appreciates the State's interest in offering small customer rates and requirements contracts for certain in-State service, in order to ensure fair treatment for all Shippers, TransCanada determined that it would be necessary to provide the same services to all Shippers regardless of their geographic location.

a) For the initial years of the project, TransCanada does not intend to offer small customer rates, such as one-part volumetric "Demand" rates, for deliveries to customers in Alaska.

b) For the initial years of the project, TransCanada does not intend to offer requirements contracts for customers in Alaska that would provide the ability to vary takes on an uneven hourly basis.

c) Not applicable.

d) Not applicable.

e) For the initial years of the project, TransCanada does not intend to offer backhaul services from Canadian points to Alaska.

f) Not applicable.

g) As described in Section 2.2.3.9 "Commitment to In-State Service" on page 2.2-70 of TransCanada's AGIA Application, TransCanada will offer firm transportation services to those Shippers that have executed firm transportation contracts to delivery points in the State as part of the tariff whether any such Shippers bid successfully in the Alaska Open Season. The tariff design for all in-State deliveries will be distance-sensitive based. If permitted by FERC, one single zone, consistent with a weighted-average volumetric-mile cost allocation methodology, would be determined for all such in-State deliveries, e.g., an in-State Shipper would pay the GTP toll plus the weighted-average percentage of the Alaska Section toll.

   TransCanada commits to provide a minimum of five in-State delivery points. In its engineering plan, TransCanada has provided a valve at each of these delivery points for future in-State delivery connections for downstream facilities that are to be built by third parties. The cost of these valves is included in the overall capital cost of the Alaska Section and will be recovered from all Shippers on the Alaska Section.

State of Alaska Request #6

On page 2.2-71, TransCanada commits that the state reimbursement will not be included in the project rate base for the purpose of determining rates. Please clarify whether TransCanada intends to deduct the state reimbursement from rate base in some other manner.

TransCanada Response

TransCanada's AGIA Application has the State reimbursement deducted from the Project rate base by reducing the debt and equity components of rate base on a pro-rata basis consistent with the Negotiated Rate capitalization structure.

State of Alaska Request #7

With regard to RFA Section 2.5, please provide, if possible, a breakdown of the cost estimate for each subproject in your proposal as follows:

a. Development Phase:
   i. Owner costs
   ii. Regulatory/permitting – including legal
   iii. FEED
   iv. Project management
   v. Other
b. Execution Phase (breakdown by pipeline, compression, gas cooling, GTP)
   i. Owner costs
   ii. EPCM
   iii. Major equipment and materials – line pipe, compression, gas cooling, power generation, gas treatment, etc.
   iv. Other materials
   v. ROW/land acquisition
   vi. Other – survey, inspection, etc.
   vii. Installation – including installation-related environmental
   viii. Commissioning

TransCanada Response

In Section 2.5 "Project Cost Estimate" of its Application, TransCanada submitted the estimated costs for the Project as required by the RFA. In this response to the above State of Alaska Request #7, TransCanada is willing to provide certain additional cost breakdowns for the Development and Execution Phases, however this additional information is provided on a confidential basis, as marked in accordance with the requirements of RFA Section 1.13.6. The cost estimate detail that TransCanada is willing to release publicly is as submitted in the Application on November 30, 2007 and as included on the CD marked "For Public Disclosure" within that Application.

Following are tables that provide the additional, confidential cost breakdown information for the State as well as the original cost estimate information intended for public disclosure.

For Public Disclosure

Cost Estimate for Development Phase (2007 million $)

	2008 $	2009 $	2010 $	2011 $	2012 $	2013 $	Phase Total
GTP	8	14	25	25	25	12	109
Alaska Section	21	38	67	66	67	33	292
Yukon-BC Section	11	21	41	41	41	20	175
Alberta Section	2	2	6	6	6	6	28
NGL Extraction	0	0	0	0	0	0	0
Phase / Annual Total	42	75	139	138	139	71	604

Note: State's contribution has not been deducted. Development Phase costs are evenly distributed over the FEED period. A conversion rate of 1$US = 1.2156 $Canadian has been used.

Cost Estimate for Execution Phase (2007 million $)

	2013 $	2014 $	2015 $	2016 $	2017 $	2018 $	Phase Total
GTP	62	985	1,208	2,153	1,268	15	5,691
Alaska Section	166	1,265	2,229	3,773	2,327	32	9,792
Yukon-BC Section	104	1,085	2,173	3,547	2,112	21	9,042
Alberta Section	10	167	327	533	318	3	1,358
NGL Extraction	0	0	0	0	0	0	0
Phase / Annual Total	342	3,502	5,937	10,006	6,025	71	25,883

Note: State's contribution has not been deducted. Development Phase costs are evenly distributed over the FEED period. A conversion rate of 1$US = 1.2156 $Canadian has been used.